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Via E-Mail (director@fasb.org)

October 7, 2021

Richard R. Jones
Chair
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2021-004

Dear Chair Jones and Members of the Board:

The CFA Institute appreciates the opportunity to comment and provide our perspectives on the Financial Accounting Standards Board ("FASB" or "Board") *Invitation to Comment, Agenda Consultation ("ITC" or "Agenda Consultation")*.

CFA Institute[1] has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. We are providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

### *A Strategic Review: Precursor to Agenda Setting*

The Financial Accounting Foundation (FAF) and FASB have unique authority in the U.S. for the determination of accounting standards under the federal securities laws. Since 1972, the FASB, overseen by the private-sector FAF[2], and by the U.S. Securities and Exchange Commission (SEC or Commission)[3], has promulgated generally accepted accounting principles for both public and

[1] CFA Institute is a global, not-for-profit professional association of more than 181,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

[2] The FAF is responsible for oversight and administration of the FASB, including the selection and appointment of FASB board members and the determination of FASB's budget.

[3] Former SEC Chair David Ruder described the Commission's oversight: "The SEC's oversight [of FASB] is extensive and covers all aspects of the FASB's activities. The Commission staff discusses issues with the FASB staff on a daily basis and the two staffs meet regularly to discuss the FASB's agenda, current problems, and matters of mutual interest." See also §108 of the Sarbanes-Oxley Act, which mandates that the Commission

private companies in United States. The Commission's rules state that financial statements not prepared in accordance with FASB's standards will be presumed to be inaccurate or misleading.[4] The importance of the FAF and FASB in establishing and maintaining high-quality financial reporting standards cannot be understated. High-quality financial reports, which are facilitated by high quality standards, are the bedrock of the U.S. capital markets. The collective mission of the FAF and FASB is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.[5]

The FAF and FASB last undertook a comprehensive strategic review six years ago, which culminated in the issuance of its Strategic Plan in April 2015. We suggest that now is an appropriate time to reflect upon the past and provide for a plan for the next 5 years (2021-2026). While it appears that the FAF began a review in Fall 2020, with a survey and outreach on its strategy, this effort appears to have been paused. The challenge for the FASB, and its stakeholders, is that an agenda consultation by FASB either front-runs, or is simultaneous with, this effort. Consequently, there may be an overemphasis on the agenda consultation process which is highly tactical when there should be an overarching strategy and vision which should take primacy.

In our view, undertaking a consultation on the standard-setting agenda at FASB without a strategic plan to set overall goals and a plan to achieve them by the FAF will not allow the FASB to revise its standard-setting and project agendas to reflect a global leadership position with regard to the priorities and interests of investors in furthering the quality of corporate reporting.

We believe the FAF strategy review should precede an agenda consultation by the FASB and that it should seek public comment on a strategic plan for 2021 and beyond. Undertaking an agenda consultation without first setting forward a vision and strategy for the future has the effect of the agenda being set without the benefit of a strategic view of the future. In the parlance of a business, the FASB is building products that may not reflect the needs of customers in the future.

determine that FASB's financial accounting and reporting standards are recognized as "generally accepted" for purposes of the federal securities laws. As a result, registrants are required to continue to comply with those standards in preparing financial statements filed with the Commission, unless the Commission directs otherwise. Subsection 19 of Section 13 (b) of the Exchange Act provides, among other things, the need to keep accounting standards current in order to reflect changes in the business environment, the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors.

[4] See §17 C.F.R. §210.-01(a)(1).

[5] See "About the FASB" (*available at www.fasb.org*)

We believe that a strategic review should consider, at a minimum, the following questions:

- How does the FASB's development of standards incorporate the impact ***technology*** has, and will have, on the preparation, audit of financial information, and use of information?
- Does an ***accounting model*** built for a manufacturing economy in the last two centuries remains fit-for-purpose in today's digital economy?
- How does FASB's simplification projects and view that ***investors are overloaded with information*** align with investors request for additional information and their sourcing of more useful forward-looking information from a new information ecosystem?
- Is the call for ***ESG information an indicator of an outdated accounting model*** that fails to account for emerging risks and valuation considerations for investors?
- Does the lack of accounting standards addressing the ***significance of intangibles*** to the valuation of US public companies continue to contribute to decision-useful information for investors?
- What processes does the FASB have to ***examine the nature, timing, and extent of information used for investment decisions***?

A strategic review should also evaluate the advisory committees, with particular focus on how to obtain the perspectives of investors to incorporate into the standard setting process. In our opinion, the FASB should re-establish the Investors Technical Advisory Committee (ITAC), which the FASB had formed "to provide investor perspectives on current projects and on the implementation of new standards." We believe that the ITAC should operate in substance, and form, similar to the FASB's Private Company Council (PCC).

### *Previous Agenda Consultations, FASB's Efforts Going Forward*

#### *Our 2016 Response*

In our response to the last agenda consultation in 2016, CFA Institute provided a comment letter highlighting three priorities for investors:

1) enhancing the presentation of primary financial statements;
2) segment reporting; and
3) intangible assets.

Unfortunately, the FASB has not focused on these key investor priorities over the last five years. The FASB project on segments has stalled yet concerns about segment disclosures are near the top of the list of investor priorities and a regular topic in SEC comment letters to issuers. CFA Institute published an extensive and thoughtful consideration of investors needs on segment disclosures in 2018 given the priority of segment disclosures to investors as we describe more fully below.

***The FASB's Recent Priorities & Focus: An Investors Focused Agenda for the Future?***
As we complete this response, we consider the FASB's previous consultations, the lack of a strategic review, its recent activities, and the recent ITC. In light of this, we find ourselves asking whether the FASB will focus its future agenda on the priorities of investors.

A review of the FASB website notes that of the 30 "recently completed projects" (March 2019 – July 2021) affecting public companies, sixteen (53%) concerned "improvements," "clarifications," or "simplifications" of existing standards; six (20%) concerned deferrals of previously issued standards, and eight projects (27%) were removed without FASB action. The recently completed projects do not reflect investor priorities. A majority related to "simplification" and the remaining concerned deferrals or no significant Board action.

Further, public reports and letters[6] suggest, in the view of many investors, that the FASB has not emphasized the importance of developing and implementing accounting standards that meet the needs and expectations of investors in an environment of unprecedented change. Many investors believe the last decade (two agenda consultation periods) have not placed investor priorities at the top of the agenda.[7]

This perception of weaknesses in standard setting, whether actual or merely perceived, have become increasingly pronounced over the last five years as a "simplification" theme has become paramount to the needs of investors. The lack of a strategic plan, as noted above, and the failure to incorporate the issues of central importance to investors has resulted in the FASB addressing less important legacy brick-and-mortar standards ("simplification") rather than a visionary reimagining of accounting standards fit-for-purpose in the global, services based, digital economy. Many, including us, are concerned that financial reporting lacks relevancy with outdated legacy standards that were mainly developed for an economy dominated by manufacturing.

As we highlight in other areas of our letter, we urge the FASB to adopt an investor-centric methodology that incorporates the priorities of investors into a standard-setting agenda. Our top three priorities remain unchanged from our 2016 letter: (Enhancing the Presentation of the Primary Financial Statements, Improving Segment Reporting, Improving Intangible Asset Reporting). We also believe the FASB must consider the costs to investors when not advancing or adopting standards, evaluate the qualitative and quantitative benefits to investors when conducting a cost-benefit analysis, and prioritize investor views above other stakeholders when evaluating tradeoffs and public comment. [8]

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6 Letter from Alliance of Concerned Investors to SEC Chair Gary Gensler (June 7, 2021) and Letter to SEC Chair Jay Clayton (Oct 2020)

7 See Final Report of the Advisory Committee on Improvements to Financial Reporting to the US Securities and Exchange Commission (2008) noting that "investor perspectives should be given preeminence by all parties involved in standards-setting." (page 10)

8 See Remarks from SEC Commissioner Kathleen L Casey, "Lessons from the Financial Crisis for Financial Reporting, Standard Setting and Rule Making" (Nov 2009), noting, "[A]ccounting standard setters should strive to promote transparency for investors above all. While the interests and preferences of other stakeholders are

***Investor Priorities Are Not Jurisdiction Specific: IASB and FASB Must Coordinate Efforts***
We note the International Accounting Standards Board (IASB) is simultaneously undertaking an agenda consultation review. We have provided a response to that consultation as well. Our overarching comment to both the IASB and FASB (the Boards) is that investor priorities are not bound by geography or jurisdiction. Investors invest across borders. Accordingly, we believe the agenda efforts of the FASB and IASB should be coordinated both in the nature, content, and timing, as investors do not want different solutions from the Boards. Our view is that the FASB and IASB resources need to be deployed more effectively toward common agenda topics. Different timing of consultations and different solutions for a common problem such as goodwill, for example, is inefficient and ineffective standard setting for both the Boards stakeholders.

***Existing vs. Emerging Topics***
Many of the existing and emerging topics outlined in the FASB's 2021 consultation were addressed in the 2016 consultation, such as the disaggregation of financial reporting information, accounting and reporting for intangible assets, segment disclosures, distinguishing liabilities from equity, improvements to the statement of cash flows, the proliferation of non-GAAP financial measures, and performance reporting.

Since FASB's last consultation, there has been an even more significant push toward the consultation's "emerging topics" including a call for the standard setters, including both the IASB and FASB, to more actively address the measurement, presentation, and disclosure of risks and performance related to environmental, social, and governance (ESG) disclosures concerning the risks and performance relating to human capital and climate change.[9] Investors have previously called on the FASB to more actively address the measurement, presentation, and disclosure of risks and performance related to ESG matters such that it effectively discharges its duty and responsibility under the federal securities laws. There has also been a louder call for standard setters to address the recognition and measurement of intangibles – something we highlighted in our response to FASB's 2016 consultation.

The persistence of such "emerging" topics, however, require a strategic direction and decision as to the importance of these topics to the accounting model. The continued persistence of the emerging topics, highlight our concern that an itemized agenda consultation before completion of the strategic review may be premature. That said, the lack of consideration of important existing topics – as efforts toward simplification have left existing investor priorities unattended – places a significant amount of work at the feet of the FASB.

clearly important considerations in the standard setting process, where those interests conflict with the needs of investors, investors' interests must prevail.
See also See Final Report of the Advisory Committee on Improvements to Financial Reporting to the US Securities and Exchange Commission (2008) noting that "investor perspectives should be given preeminence by all parties involved in standards-setting." (page 10)

9 For example, see SEC Petition for Rulemaking dated October 1, 2018 concerning environmental, social and governance (ESG) disclosure; see also Mark Carney, Governor, Breaking the tragedy of the horizon: Climate change and financial stability, Bank of England 14 (Sept. 29, 2015).

## *FASB's Current Agenda Consultation*

The FASB's ITC notes that throughout the first six months of 2021, the FASB staff and Board members conducted outreach where input on the FASB's future standard-setting activities fell within the following types of project areas.

| CHAPTER 1 | CHAPTER 2 | CHAPTER 3 | CHAPTER 4 |
|---|---|---|---|
| **DISAGGREGATION OF FINANCIAL REPORTING INFORMATION** | **EMERGING AREAS IN FINANCIAL REPORTING** | **REDUCTION OF UNNECESSARY COMPLEXITY IN CURRENT GAAP** | **IMPROVEMENTS TO FASB STANDARD-SETTING PROCESSES** |
| - Overall<br>- Business Combinations<br>- ESG-Related Disclosures<br>- Income Tax Disclosures<br>- Partially Owned Subsidiaries and Equity Method Investments<br>- Performance Reporting—Disaggregation of Performance Information<br>- Intermediate Operating Measures for NFPs<br>- Presentation of the Statement of Cash Flows | - Overall<br>- Definition of a Derivative<br>- Digital Assets<br>- ESG-Related Transactions<br>- Financial KPIs or Non-GAAP Metrics<br>- Recognition and Measurement of Government Grants for Business Entities<br>- Intangible Assets, Including Software | - Overall<br>- Balance Sheet Classification<br>- Consolidation<br>- Consolidation of NFPs<br>- Debt Modifications<br>- Distinguishing Liabilities from Equity<br>- Materiality Considerations for Disclosures | - Overall<br>- Codification Accessibility<br>- Cost-Benefit Analysis Framework<br>- Interpretive Process<br>- Transition Requirements |

### *Consideration of Elements of Agenda Consultation*

We summarized the FASB's thinking from its outreach in the Agenda Consultation in the table above to provide context. We comment on existing and emerging investor agenda priorities (Chapter 1 and Chapter 2) in the separate sections which follow. Immediately below we highlight operational elements (principally, Chapters 3 and 4) considered in the agenda consultations.

### *Agenda Prioritization Process: Pervasive Need for Changes*

The FASB's ITC appears to set forth a new "pervasive need" threshold for changes to GAAP. [10] This appears to be a raised bar that may be inconsistent with the statutory mandate to improve the accuracy and effectiveness of financial reporting.[11] We are concerned that such an approach will leave the FASB agenda focused on minor reforms and incremental projects rather than strategic priorities. Consequently, we urge the FAF and the FASB to adopt a strategic plan, subject to public comment, and policies in line with the statutory mandate to improve the accuracy and effectiveness of financial reporting and the protection of investors.

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[10] See FASB ITC states in multiple locations: The Board's prioritization process includes three criteria, including "an identifiable and ***sufficiently pervasive*** need to improve GAAP…" (page 2); Despite previous requests to add accounting for crypto assets to its agenda, the Board did not add the item "because of a ***lack of pervasiveness***.." (page 15); and Question 2 to respondents: "Please explain…[w]hy ***there is a pervasive need*** to change GAAP…" (page 34).

[11] See §108 of the Sarbanes-Oxley Act

***Reduction of Unnecessary Complexity in Current GAAP &***
***Materiality Considerations for Disclosures (Chapter 3)***

Since at least 2012, the FASB has devoted significant time and resources to elevating unnecessary complexity emphasizing a "simplification" theme. Simplification for the sake of simplification only transfers the burden of understanding the true economics of a transaction upon investors. Better, not less disclosure, is more beneficial for disclosure when transactions are complex. With timely and relevant disclosure, investors can wade through complexity. Stakeholders other than investors have suggested that this request for additional disclosures overloads investors. CFA Institute debunked this myth in our 2013 Publication, *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume.*. The FASB in 2018 found the same as it relates to the "disclosure overload" narrative:

> *"What we found in our outreach over the years is that users do not suffer from overload; they have technological tools at their disposal," said Nicholas Cappiello, the manager of the FASB staff's work on the materiality of footnote disclosures.* [12]

Within the unnecessary complexity category in Chapter 3 – and related to the associated disclosure overload narrative above – the FASB has included disclosure materiality considerations. We direct the Board to previous attempts to alter the materiality guidance which struck a negative chord with investors. As the SEC's Investor Advisory Committee noted,

> *Granting issuers greater latitude to use discretion in evaluating the materiality of disclosures in the absence of a framework is fraught with the risk that disclosures that are unfavorable to the issuer are disproportionately viewed as immaterial and as a result excluded from the financial statements. Such a result is not in the best interest of investors, and is anathema to investor protection, capital formation, and the efficient functioning of the capital markets.* [13]

In general, the concept of financial materiality has been a component of financial reporting since its inception. The concept has been supplemented by legal doctrine and regulatory action over the decades. Moreover, the application of what a reasonable investor deems relevant and material is dynamic as it changes based on facts and circumstances. As a result, materiality evolves as markets change and investors views change. We do not believe revisiting this disclosure materiality debate is an effective use of the FASB's limited agenda time.

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[12] See FASB Disclosure Framework – Board's Decision Process and Entity's Decision Process; "Materiality and Disclosures: FASB Decides to Maintain the Status Quo," May 24, 2018, Weaver.

[13] See Letter from SEC Office of the Investor Advocate to FASB (July 11, 2017); SEC Investor Advisory Committee, Comment Letter on Proposed Amendments to Statement of Financial Accounting Concepts & Notes to Financial Statements (Jan. 21, 2016).

***Improvements to FASB Standard-Setting Processes (Chapter 4)***
Below we consider the items of most importance to investors from Chapter 4 and we include our view on technology which we believe has a pervasive impact on improving standard setting.

*Consideration of Technology*
The lack of a strategic approach to incorporating technology into standard setting continues to adversely impact FASB's standards. Technology continues to transform both the capture, compilation, dissemination, and consumption of information. In our experience, the FASB's standard setting process does not appropriately incorporate technology. Specifically, the FASB has not defined the base level technology it expects preparers to meet when developing standards. While the cost of technology may be a reason not to change or adopt a standard, this cannot, in the current era, be considered an obstacle to every accounting change. The FASB needs to make public the underlying technology standard preparers are expected to meet when developing new accounting pronouncements. Further, the FASB has not recognized – as evidenced by the disclosure overload narrative – or addressed whether financial reporting standards remain fit-for-purpose in an increasingly digital corporate reporting environment, where more and more investors and users rely on data and algorithms to consume and analyze financial information. Accordingly, the FAF and FASB should consider the formation of a Technology Advisory Committee (TAC) to better understand and incorporate the potential benefits and costs of technological advances into its standard-setting process.

*Cost-Benefit Analysis*
Given the inherent difficulty in performing a robust analysis of costs, and even more so assessing the benefits of any potential projects for investors, we urge the Board to develop a more transparent and thorough cost and benefit framework to provide investors with greater insight into how the Board analyzes costs and weights benefits throughout its due process. Heretofore, the FASB has emphasized the cost to preparers of implementing a new standard, but the not the costs to investors of not implementing new standards. Further, the FASB has consistently conducted a less than robust consideration of benefits – mostly to investors – of new standards.

Moreover, the FASB had not considered the many qualitative benefits derived from standards, such as an increase in investor confidence or enhanced quality of financial reporting.[14] In addition, when removing an agenda item or deferring implementation of a standard, the FASB should illuminate the costs that investors will incur or continue to incur as a result of such a decision.

We also agree that the FASB should utilize innovative ways to perform outreach to better understand costs and benefits, such as surveys, including surveys to investors of costs avoided and benefits derived by the adoption of a new standard.

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[14] Office of Economic Analysis: Memorandum re: Literature Review on Independent Mutual Funds and Dir. from Chester Spatt, Chief Economist, Securities & Exchange Commission, to the Investment Company File S7-03-04 (Dec. 29,2006), noting that "more independent boards were more likely to better protect investors…"

*Interpretive Process*
We agree with others who have provided feedback to the FASB to establish a process that could provide timely interpretations of existing GAAP. We do not, however, believe that such a process should be assumed by the FASB's EITF (see our previous comments about re-establishing the ITAC).

*Transition Requirements*
As we have stated previously, we believe the most decision-useful information to investors would require full retrospective transition for all periods presented.

### *Existing Investor Priorities*
We do not disagree that Disaggregation of Financial Reporting Information (Chapter 1) of the Agenda Consultation has many items of importance to consider related to better disaggregation within the financial statements. With that said, however, we note several items below which of are particular importance to investors and which would be an important first step, to help facilitate, greater disaggregation. They related to Financial Statement Presentation, Disclosures and Segments.

***Financial Statement Presentation***
Financial Statement Presentation remains a top priority of investors. On this point, we refer to our 2016 letter for detailed remarks on why we have regarded financial statement presentation as a priority since our 2010 survey regarding Memorandum of Understanding projects. While certain projects have been completed, financial statement presentation remains a long-standing and incomplete project. In our view, the focus of the project should be on the following four elements:

- direct cash flows;
- disaggregation;
- cohesiveness; and
- account balance roll-forwards.

*Statement of Cash Flows*
Investors have persistently called for improvements to the Statement of Cash Flows over the three decades since its issuance in 1987. As noted at the original standard, "generally, information about gross amounts of cash receipts and cash payments during a period is more relevant than information about the net amounts of cash receipts and payments." This fact remains unchanged.

We have previously supported the direct cash flow method as it provides greater and meaningful disaggregation of the cash flow statement.[15] During the FSP discussion paper deliberations, a common reservation aired by preparers against the direct cash flow method was the anticipated prohibitive costs associated with this approach. There were also assertions around the difficulties in aggregating and consolidating cash flow statement from a subsidiary level.

[15] *A Comprehensive Business Reporting Model: Financial Reporting for Investors* (CBRM), is a current, comprehensive, and formal portrayal of professional investors' information needs, CFA Institute Centre for Financial Market Integrity (2007)

We recommend that FASB update its cost-benefit analysis of a direct cash flow method requirement, including assessing if and to what extent advances in reporting technology since 1987 may have lessened these preparer concerns and therefore increased the feasibility of implementation of the direct cash flow statement. The increasing emphasis by market participants on non-GAAP liquidity measures strongly shows the need for the direct method.

We join the chorus of others that reform of the Statement of Cash Flows should be a FASB top priority.

*Meaningful Disaggregation*

We are pleased to see that the ITC addresses the issue of disaggregation. Of the proposed list of items, we believe that more granularity and disaggregation is needed regarding the following types of financial reporting information:

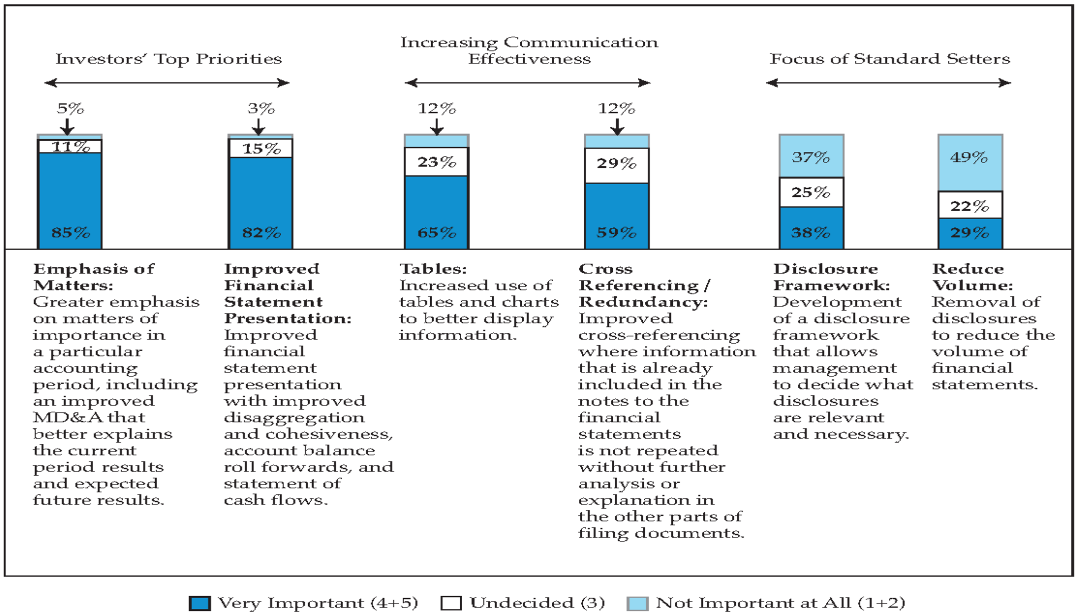
- Breakdown of cost of sales (COS) and selling, general, and administrative (SG&A) expense to understand a company's cost structure by nature (such as labor) and/or further by function (such as selling expenses separate from general and administrative expenses)
- Breakdown of operating results by regulatory jurisdictions and product lines to understand geographical and jurisdictional risks
- Defined subtotal for operating income and a designation of whether income and expense items (such as restructuring costs) are recurring or nonrecurring to increase comparability across reporting periods and companies
- Effects of business combinations to compare a company pre- and post-acquisition
- Effects of environmental, social, and governance (ESG) matters on financial statement line items
- Breakdown of income tax information to better assess global tax risk

***Disclosures***

We urge the Board to consider improvements to disclosures in the manner described above and suggest prioritizing this project as these are the changes investors have been asking for consistently over the past several years. Indeed, as we have previously stated, and the FASB has acknowledged, investors are not overloaded with information.

We believe improving disclosures is an important issue to investors. They see improved financial statement presentation, emphasizing matters of importance and increasing communication effectiveness through tables and cross-referencing as more important than developing a disclosure framework or reducing the volume of disclosures. Further details can be found in our paper *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume.*

**HOW IMPORTANT WOULD EACH OF THE FOLLOWING POTENTIAL FINANCIAL REPORTING CHANGES BE TO YOU IN THE USE OF FINANCIAL STATEMENTS? (N = 303)**




***Segments***

FASB took one small step with the issuance of its segment reporting standard in 1997, but it was a significant and meaningful step for investors. Segment disclosures complement the consolidated financial statements because they can expose differences in economic fundamentals, such as growth prospects, rates of profitability, degrees of risk, financing and financial structures, and differences in regulatory and tax regimes across business units. It is no wonder that investors spend a significant amount of time with segment disclosures.

However, application has challenged regulators and investors. As we stated in response to the 2016 consultation, segment reporting should be on the Board's agenda to address some issues that have evolved over the 20 years since the standard was first promulgated. Segment reporting information is critical to investors because they consider the information provided at the segment level to be equally important to information provided on an entity wide basis. Many times, the segment footnote is the last footnote prepared with traditional accountants not fully trained in how investors' use segment information in the valuation process. Those running the business understand better the use of this information by the market and have regularly been seen to attempt to manage the level of disclosures.

In 2018 we surveyed CFA Institute members, including portfolio managers and analysts. Among other things, we surveyed their level of satisfaction with existing segment disclosure requirements and solicited their views on areas for improvement. The survey results show that 75% of investors rate segment disclosures as very important to their analysis, but that only 13.4% are satisfied with the segment disclosures as currently provided. Indeed, 83.4% of respondents strongly agreed or agreed that segments should be disclosed as a critical audit matter. The results can be found in our report *Segment Disclosures: Investor Perspectives*.

Geographic disclosures have always been of interest to investors, but the pandemic has highlighted their importance. We witnessed the spread of the virus globally with peaks and troughs of cases at different times in different jurisdictions. For investors to understand the impact of the COVID-19 virus on the company's business — and to consider how it may evolve in the future as the spread of the virus ebbs and flows — companies need to include the effects of the virus on their geographic results and the sensitivity of their business to these regional outbreaks. The virus has taught us the importance of differences in geography and highlight the need for companies to explain those effects.

Other changes, such as requiring retrospective restatement when new segments are adopted or modified will help investors understand historical performance and management's current approach. The FASB should also consider whether companies should disclose the metrics that managers use to monitor and evaluate segment performance (e.g., dashboards).

### *Emerging Investor Priorities*

Since FASB's last consultation, there has been an even more significant push toward the consultation's "emerging topics" in Chapter 2; however, some are not so emergent. For example, the topic of Financial KPIs or Non-GAAP Metrics is something CFA Institute has written extensively on over the last five years.[16] We have also previously commented on intangible assets and have discussed the emerging importance of ESG risks and transactions.

#### *Intangible Assets*

The question the FASB needs to explore strategically is whether the accounting model built for a manufacturing economy in the last two centuries remains fit-for-purpose. For example, accounting standards have historically treated investments in plant and equipment or financial assets very differently than investments in intangibles. As a result, investments in internally generated intangible assets are generally not recognized on balance sheets. This may have been acceptable at a time when companies created value through the deployment of vast collections of tangible assets, but today, most companies generate much of their value through intangible assets. The absence of most intangibles from financial statements and footnotes can result in a large gap between the book value of the company and its market capitalization. Given the significance of intangibles to the valuation of public companies, we believe the FASB should prioritize this project.

#### *ESG Related Transactions*

ESG related transactions show up under Chapter 1 (Disaggregation of Financial Reporting Information) and Chapter 2 (Emerging Areas in Financial Reporting) of the Agenda Consultation.

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[16] See also CFA Institute Insights: Solving the Conundrum Presented by Non-GAAP Financial Measures (2016), Initiatives Focused on ESG Reporting Are Making Progress, But There Is More to Do (2017), Investors Require Improvements in Reporting of Alternative Performance Measures (2018), Time to Focus on the Forgotten Middle across Financial vs. Non-Financial Information Spectrum (2018).

ESG matters can and do directly affect the financial statements and the FASB needs to consideration of the integration of emerging ESG matters in the financial statements. We urge the Board to consider the following components:

- *Climate* –Financial statements may include assumptions, estimates, and valuations that are materially impacted by the effects of climate change. Investors often are left unaware of the role of climate change and other ESG matters on the financial statements. That is because assessing the effects of climate change and other ESG matters on the financial statements can be uncertain, complex, and highly dependent upon the particular assumptions used by management. We, therefore, encourage the Board to prioritize this project with the aim that disclosures about the assumptions and judgements made by management are more explicit.

- *Human Capital* – There is also a need for the Board to require a financial statement footnote disclosure about the total cost of a company's workforce, including wages, benefits and other transfer payments, and other employee expenses. While the costs for a footnote disclosure of total workforce costs would be minimal, the potential benefits to investors would likely be significant. As Professor Shivaram Rajgopal, the Roy Bernard Kester and T.W. Byrnes Professor of Accounting and Auditing at Columbia Business School explains:

> *One of the distressing things to me as a fundamental analyst is that only 15% of American companies actually tell us what their labor costs are. Which to me is astonishing.*
>
> *Before we talk about human capital measures and all of the SEC's new initiatives, which are welcome, can somebody just tell me what the labor costs are? That would help me a lot because that is proxy for fixed cost. If I don't know fixed cost, I don't know operating leverages for companies. This is like finance 101.*
>
> *So, if somebody wants to do something about the "S," [of ESG] please make sure we all get information about labor costs. That would be, I think, a step forward. In my class we spent six hours trying to guesstimate what a company's labor cost are.*
>
> *We use Glassdoor, indeed, LinkedIn as resources. So, the "S" related to labor has a lot of potential in terms of understanding future performance. Especially, subtle things like culture, which is important, but very hard to quantify. But right now, there is virtually nothing in terms of "S" related to labor. So, I would start there.*
>
> *Even if we do not accomplish a lot with this ESG movement, getting information about workforces would really help me as a fundamental analyst.*[17]

The FASB ITC also addresses certain environmental transactions stating:

> *Stakeholders provided feedback that there is a lack of clarity on how to account for certain environmental transactions, which has resulted in diversity in practice. That includes the accounting for investments in emissions allowances, carbon offsets, renewable energy credits, and wind farms. For example, there are questions about what GAAP companies should follow to account for those transactions because existing guidance does not specifically refer to environmental-related transactions or provide examples.*

[17] See Council of Institutional Investors Podcast, available at https://www.cii.org/podcasts

Investors would welcome clear and unambiguous disclosure of events and transactions in the absence of guidance and disclosures on the transactions mentioned above. As we stated above, we urge the Board to work on providing greater disclosure and not focus resources on providing guidance to eliminate or exclude material information from investors.

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Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Robert P. Peak at robert.peak@cfainsstitute.org or Sandra J. Peters at sandra.peters@cfainstitute.org.

Sincerely,

*/s/ Sandra J. Peters*

Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy Advocacy
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CC:

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